

Message Text

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PAGE 01 TAIPEI 03776 141111Z

13

ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02 STR-08

DRC-01 /162 W

----- 023702

R 140911Z JUN 74

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 2077

INFO AMCONGEN HONG KONG

AMEMBASSY SEOUL

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: ECON, TW

SUBJECT: RECENT ECONOMIC DEVELOPMENTS IN THE ROC

REF: TAIPEI 2959, 2665, 2340

HONG KONG FOR TREASURY REP

1. BEGIN SUMMARY: SEVERAL ECONOMIC DEVELOPMENTS OF IMPORTANCE OCCURRED IN THE ROC IN MAY AND EARLY JUNE. LEGISLATIVE YUAN APPROVED FY 1975 GROC BUDGET OF NT\$76,250 MILLION (US\$2,007 MILLION), AN INCREASE OF 41 PERCENT OVER APPROVED FY 1974 BUDGET. WHOLESAL AND CONSUMER PRICES CONTINUED TO DDIFT SLOWLY DOWNWARD AND ALL ITEMS EXCEPT WHEAT FLOUR TAKEN OFF CONTROLLED LIST. EXPORT EMBARGO ON NUMBER OF ITEMS WAS REPLACED BY QUOTA SYSTEM. TIGHT MONEY POLICY HAS RESULTED IN INCREASED RATE OF SAVINGS BUT COMPLAINTS OF BUSINESS

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PAGE 02 TAIPEI 03776 141111Z

COMMUNITY OVER HIGH INTEREST RATES AND UNAVAILABILITY

COMMERCIAL LOANS ARE INCREASING. SOME RELATIONS
ANNOUNCED BUT NOT IN INTEREST RATES. SEPARATE REPORT
TO FOLLOW ON TRADE DEVELOPMENTS. END SUMMARY.

2. BUDGET - ON MAY 28 LEGISLATIVE YUAN APPROVED FY 1975
GROC BUDGET OF NT\$76,250 MILLION (US\$2,007 MILLION).
ONLY MINOR CHANGES WERE MADE IN BUDGET PRESENTED BY
EXECUTIVE YUAN FOR APPROVAL. BELOW IS APPROVED FY 1975
BUDGET IN MILLIONS OF US\$ BY MAJOR REVENUE AND
EXPENDITURE CATEGORIES WITH FY 1974 FIGURES FOR
COMPARISON.

			PERCENT INCREASE OR DECREASE			
	PERCENT OF FY 74	TOTAL	PERCENT OF FY 75	TOTAL	FY 75 OVER FY 74	
REVENUES &						
RECEIPTS	1,423	100.0	2,007	100	41.0	
TAXES &						
MONOPOLIES	1,075	75.6	1,551	77.3	44.3	
GOV'T-OWNED						
ENTERPRISES	183	12.8	236	11.8	29.0	
FEES & FINES	34	2.4	55	2.8	61.8	
SALES OF ASSETS	26	1.8	38	1.8	46.2	
BONDS	74	5.2	92	4.6	24.3	
OTHER	31	2.2	34	1.7	9.7	

			PERCENT INCREASE OR DECREASE			
	PERCENT OF FY 74	TOTAL	PERCENT OF FY75	TOTAL	FY75 OVER FY 74	

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PAGE 03 TAIPEI 03776 141111Z

EXPENDITURES	1,423	100.0	2,007	100.00	41.0
DEFENSE &					
FOREIGN AFFAIRS	671	47.3	842	42.1	25.5
ECONOMIC RECONSTR-					
UCTION & COMMUNIC-					
ATIONS	163	11.5	361	18.1	121.5

SOCIAL WELFARE	173	12.2	218	10.8	26.0
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SUBSIDIES TO

PROVINCIAL & LOCAL

GOVERNMENTS	54	3.8	114	5.6	111.1
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EDUCATION	119	8.4	107	5.3	MINUS 10.1
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GENERAL ADMINIS-

TRATION	65	4.5	91	4.6	40.0
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DEBT SERVICE	77	5.4	76	3.8	MINUS 1.3
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PAY INCREASE	80	5.5	160	7.9	100.0
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OTHER	22	1.4	37	1.8	68.2
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IT WILL BE NOTED PROPOSED JULY 1, 1974 PAY INCREASE FOR GOVERNMENT EMPLOYEES AND MILITARY PERSONNEL WAS PPROVED AS A SEPARATE LINE ITEM ONLY. THUS THE TOTALS FOR FUNCTIONAL CATEGORIES UNDER EXPENDITURES WILL CHANGE WHEN PAY INCREASE ALLOTTED TO VARIOUS MINISTRIES AND AGENCIES.

3. PRICES AND PRICE CONTROLS - WHOLESALE PRICES

DECREASED 1.1 PERCENT IN MARCH COMPARED WITH FEBRUARY AND 2.6 PERCENT IN APRIL COMPARED WITH MARCH. CONSUMER PRICES INCREASED .8 PERCENT IN MARCH COMPARED WITH FEBRUARY BUT DECREASED 1.3 PERCENT IN APRIL COMPARED WITH MARCH. PRELIMINARY DATA FOR MAY INDICATE DOWNWARD PRICE TRENDS CONTINUED AT APPROXIMATELY APRIL LEVEL. AS PRICES BEGAN TO DECLINE, GROC GRADUALLY LIMITED OFFICIAL USE

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PAGE 04 TAIPEI 03776 141111Z

ELIMINATED PRICE CONTROLS. THEY WERE LIFTED MARCH 26 ON COTTON YARN, TOWELING, SHEETING, TOOTH PASSTE, UNDERSHIRTS AND COTTON KNIT GOODS. CONTROLS ON STEEL BAARS WERE LIFTED ON APRIL 2, ON LAUNDRY SOAP AND DETERGENT APRIL 20, ON MONOSODIUM GLUTUMATE AND TOILET TISSUE MAY 29 AND ON CEMENT AND SOYBEAN MEAL AND OIL JUNE 1. ONLY PRICE OF WHEAT FLOUR STILL CONTROLLED. ALSO, GROC HAS ELIMINATED IMPORT SUBSIDIES ON SOYBEANS AND WHEAT AS WORLD PRICES HAVE DECLINED BELOW SUBSIDIZED PRICES (SEE EMBASSY'S A-47 OF MARCY 8, 1974).

4. EXPORT CONTROLS - OWING TO IMPROVED SUPPLY

SITUATION, BAN ON EXPORT OF CERTAIN INDUSTRIAL PRODUCTS HAS BEEN LIFTED. JUNE EXPORT QUOTA OF 14,000

M/T OF CEMENT WAS ESTABLISHED AND JUNE QUOTAS ALSO ESTABLISHED FOR FIRST-STAGE PROCESSED PLASTICS SUCH AS PLASTIC SHEETING AND ARTIFICIAL LEATHER. IT IS ANTICIPATED THAT SOMETIME THIS MONTH QUOTAS WILL BE ANNOUNCED ON HITHERTO BANNED ITEMS SUCH AS STRUCTURAL STEEL, STEEL BARS AND LUMBER.

5. MONEY SUPPLY & CREDIT - FROM FEBRUARY 1 TO APRIL 30 MONEY SUPPLY DECREASED 12.4 PERCENT. COMPARED WITH YEAR AGO, MONEY SUPPLY WAS 24.8 PERCENT GREATER ON APRIL 30. PARADOXICALLY, THIS SUBSTANTIAL INCREASE IS PROBABLY INADEQUATE TAKING INTO ACCOUNT 57 PERCENT INCREASE IN WHOLESALE PRICES FROM APRIL 1973 TO APRIL 1974 AND 1973 GNP GROWTH RATE OF 12.3 PERCENT IN REAL TERMS. NO DOUBT THAT TIGHT MONEY POLICIES HAVE BEGUN TO PINCH NOT ONLY SMALL AND MARGINAL COMPANIES BUT MAJOR ONES AS WELL. FOR EXAMPLE, EMBASSY HAS HEARD FROM NUMBER OF RELIABLE SOURCES THAT SEVERAL OF LARGEST COMPANIES ON TAIWAN ARE SO SHORT OF WORKING CAPITAL THAT CENTRAL BANK (CBC) MAY BE OBLIGED TO STEP IN WITH SHORT-TERM LOAN. SOME MEASURE OF RELAXATION IS NOW BEGINNING TO TAKE PLACE. REDISCOUNT OF EXPORT BILLS HAS BEEN RESUMED AND CBC HAS OPENED LINE OF CREDIT TO COMMERCIAL BANKS TO AID SMALL AND MEDIUM-SIZED EXPORT INDUSTRIES. GROC HAS NOT, HOWEVER, LOWERED INTEREST RATES ON LIMITED OFFICIAL USE

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PAGE 05 TAIPEI 03776 141111Z

COMMERCIAL LOANS DESPITE PRESSURE FROM BUSINESS COMMUNITY TO DO SO. Y.S. SUN, MINISTER OF ECONOMIC AFFAIRS, TOLD ECONCOMM COUNS JUNE 10 THAT GROC MAY REDUCE RATE 1 OR 2 PERCENTAGE POINTS BUT IT HOPES TO AVOID DOING SO UNTIL INFLATIONARY IMPACT OF JULY WAGE INCREASE HAS BEEN DETERMINED. UNGER

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